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INFO RUEHBO/AMEMBASSY BOGOTA 6113
RUEHBU/AMEMBASSY BUENOS AIRES 1058
RUEHLP/AMEMBASSY LA PAZ MAR LIMA 9954
RUEHQT/AMEMBASSY QUITO 1820
RUEHSG/AMEMBASSY SANTIAGO 3315
RUEHGL/AMCONSUL GUAYAQUIL 0344
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E.O. 12958: DECL: 03/10/2026
TAGS: EFIN ECON PGOV VE
SUBJECT: CORRUPTION IN BRV ARGENTINE BONDS TRANSACTIONS

REF: A. CARACAS 00512
¶B. CARACAS 03782

Classified By: ECONOMIC COUNSELOR ANDREW N. BOWEN FOR 1.4 (D)

¶1. (C/NF) SUMMARY. On March 3, 2006, Nelson Ortiz, the Caracas Stock Exchange (BVC) President, outlined the BRV mechanism undertaken for the purchase and re-sale of Argentine bonds. The BRV has reportedly sold USD 1.1 billion, of a reported USD 2.8 billion in Argentine bonds originally purchased. Ortiz maintained the BRV chose not to execute the transactions through the BVC because this would have required transparency and would have directed all profits to BRV coffers. Instead, in a series of private transactions through selected banks, various parties reportedly earned a cut. The BRV was left with only about one-fourth of the profits and private banks kept about three-fourths. With Finance Minister Merentes announcing USD 75 million in profits to date, private banks (and their BRV sponsors) could have earned roughly USD 225 million in profits on these transactions. END SUMMARY.

¶2. (C/NF) Nelson Ortiz, the President of the Caracas Stock Exchange (BVC), used the hypothetical example of a USD 80 Argentine Bond to illustrate the transaction. According to Ortiz, the Government of Argentina (GOA) sold the bonds to the BRV at a price slightly above the market rate (USD 81), which justified not selling the bonds on the open market. The BRV then sold the dollar-denominated bonds to local banks in local currency for a price slightly above this amount (USD 83-84) at the official exchange rate (2,150 B/USD). Local banks interested in exchanging Bolivars for dollars, were willing to pay the premium. These banks in turn sold the bonds for dollars in private transactions to international banks at slightly below market rate (USD 79), but at an implicit exchange rate slightly below the parallel rate (2,668 B/USD). Foreign exchange gains far off-set the lower prices received for the bonds.

¶3. (C/NF) To avoid fluctuations in bond market prices, the bonds are purchased and resold in just a few days. Ortiz claimed the BRV was left with around one-fourth of the gains and private individuals about three-fourths. According to the Finance Ministry (MF), the BRV sold USD 1 billion in Argentine bonds to 25 financial institutions, earning USD 75 million in profits. Private banks (and their BRV cohorts) could have earned roughly USD 225 million in profits.

Originally, the MF sold the bonds exclusively to two banks, Occidental de Descuento (President, Victor Vargas) and Fondo Comun (President, Victor Gill), which are banks widely alleged to pay commissions for BRV deposits. In March 2006, Finance Minister Merentes announced that the BRV planned to sell approximately USD 60 million in Argentine bonds every 15 days to 32 financial institutions, by a formula which would not offer bonds to the same financial institutions in consecutive rounds. However, the selection criteria is not transparent.

¶4. (C/NF) COMMENT: The BRV can claim that the purchase and re-sale of Argentine bonds supports BRV policy objectives of helping alleviate inflationary and foreign exchange pressures (reftel A and B), expand regional influence, convert Caracas into the "epicenter of emerging market debt", and earn profits for the BRV (reftel B). However, anecdotal evidence suggests that corruption also strongly influenced the process. And, as with other financial transactions, those private individuals and businesses closest to the BRV appear to have received preferential treatment. END COMMENT.

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